

[Home for this Area](#)[Previous Location](#)

## TechNotes # 4

---

# ***SBIC TechNotes***

July 1998 - Number 4

### **REPORTING PORTFOLIO VALUATIONS TO SBA**

Sections 107.503 and 107.650 of the SBA regulations require SBICs to value their portfolios periodically and to report the valuations to SBA. In 1995, SBA issued a memorandum to licensees that provided additional information concerning the prescribed form and content of the required valuation reports (memorandum #95-9, June 27, 1995). Because of the passage of time and the number of new licensees that have entered the SBIC program since then, we are presenting the information again in this edition of TechNotes.

#### **Regulatory Provisions**

The regulatory requirements concerning frequency of valuations are found in § 107.503(d), which reads as follows:

- (d) Frequency of valuations. --(1) If you have outstanding Leverage or Earmarked Assets, you must value your Loans and Investments at the end of the second quarter of your fiscal year, and at the end of your fiscal year.
- (2) Otherwise, you must value your Loans and Investments only at your fiscal year end.
- (3) On a case-by-case basis, SBA may require you to perform valuations more frequently.
- (4) You must report material adverse changes in valuations at least quarterly, within thirty days following the close of the quarter.

The regulatory requirements concerning the reporting of valuations to SBA are found in § 107.650, which reads as follows:

You must determine the value of your Loans and Investments in accordance with § 107.503. You must report such valuations to SBA within 90 days of the end of the fiscal year in the case of annual valuations, and within 30 days following the close of other reporting periods. You must report material adverse changes in valuations at least quarterly, within 30 days following the close of the quarter.

#### **Reports to SBA**

Annual Valuation Reports - The annual valuation requirement applies to all SBICs. You satisfy this requirement by filing SBA Form 468, which includes valuation information in the Schedule of Loans and Investments (page 12P or 12C of the form). If you have portfolio securities that have changed in value by more than plus or minus 10 percent since your last valuation report, you must identify them in a supplementary schedule. This schedule, which may be included with the footnotes to the Form 468 financial statements, should show the name of the portfolio company, cost of the investment, current Asset Value, previous Asset Value, and the reasons for the change in the valuation. "Asset Value" is a defined term in SBA's Valuation Guidelines for SBICs that means fair value as determined by a licensee's board of directors or general partners.

Semi-annual Valuation Reports - The semi-annual valuation requirement applies to leveraged SBICs (and to SBICs that have redeemed all their Participating Securities leverage, but still have Earmarked Assets in their portfolios). Although not specifically required by regulation, SBA is asking SBICs with outstanding leverage commitments to comply as well. You satisfy this requirement by submitting a schedule to SBA listing all your portfolio securities that have changed in value by more than plus or minus 10 percent since your last fiscal year end. The schedule should show the name of the portfolio company, cost of the investment, current Asset Value, previous Asset Value, and the reasons for the change in the valuation.

If you do not have any such securities, you must send SBA a written certification containing the following language: "The Asset Value of each portfolio security has not changed by more than plus or minus 10 percent from the Asset Value at the end of the previous fiscal year, excluding changes due to additional financings or repayment of principal by the portfolio concern." An officer or general partner of the SBIC must sign the certification.

In addition to the required schedule or certification, you must file a schedule summarizing your portfolio as of the end of your second fiscal quarter, using the following format (the line items correspond to those in the Loans and Investments section of the Statement of Financial Position, page 2P or 2C of SBA Form 468):

<b>Investment Category</b>	<b>Cost at end of period</b>	<b>Unrealized appreciation (depreciation)</b>	<b>Fair value</b>
Total Loans			
Total Debt Securities			
Total Equity Securities			
Total Portfolio Securities			
Total Assets Acquired			
Total Assets Acquired			
Total Operating Concerns Acquired			
Total Notes & Other Securities Received			
Total Loans and Investments			

**Quarterly Valuation Reports** - You must file a quarterly valuation report only when there is a material adverse change in the value of one or more of your Loans and Investments since your last required report. For this purpose, "material" means a decrease of more than 20 percent in the Asset Value of any individual portfolio security. Your report should list each such security in a schedule showing the name of the portfolio company, cost of the investment, current Asset Value, previous Asset Value, and the reasons for the change in the valuation.

#### **Information Retained in Licensee's Files**

In addition to the valuation reports you send to SBA, you must keep more detailed information about your portfolio valuations in your files. The Valuation Guidelines for SBICs require that you prepare and retain valuation reports for each portfolio security. These reports must document the cost, current fair value and previous fair value, plus the methodology (i.e., the basis for the valuation as set forth in your valuation policy) and the supporting data used to determine the value of each portfolio security as of each valuation date. You may use any format for these reports, as long as they contain the required information. Although you need not file these reports with SBA on a regular basis, you must make them available for review by SBA's examiners and must provide copies to other SBA staff upon request.

Please note that the Valuation Guidelines for SBICs are available on the Investment Division's web site ([www.sba.gov/INV](http://www.sba.gov/INV)).

If you have any questions about valuation requirements, please consult your SBA account executive or area chief.

**Content comments or questions to:** [leonard.fagan@sba.gov](mailto:leonard.fagan@sba.gov)

**\* Last Modified: 06-18-02**